Aviva Smooth Managed Fund Range suitability template wording

For use by professional advisers only

This document is designed to aid you with your due diligence and outsourcing requirements by providing some information you may find of use when drafting your suitability letters.

We are not providing advice and no responsibility is accepted by Aviva for your reliance on, or use of, this information.

The Aviva Smooth Managed Fund Range is designed to deliver growth over the medium to long-term and uses a 'smoothing' process to shelter you from some of the volatility seen in more traditional investments. The Fund is a medium- to long-term investment, so you should be prepared to invest for five years or more. The underlying investment is a multi-asset fund, which gives you access to a wide range of assets across different countries.

How does the 'smoothing' process work?

Aviva Life and Pensions applies a smoothing process to the fund which is designed to cushion you from the short-term ups and downs you could see if you were investing directly in the stock markets. So, although you won't always benefit from the full upside of the markets, you'll have protection against some of the downside.

The Fund uses a Smooth Growth Rate and where required, Fund Price Adjustments to provide some protection against short-term market volatility.

The Smooth Growth Rate

The funds in the Smooth Managed Fund Range will normally increase daily in line with the Smooth Growth Rate (less fund charges).

Smooth Managed Fund

- If you invest through Aviva's Pension Portfolio the Smooth Growth Rate = Bank of England Base Rate +5% per year.

- If you invest through Aviva's Select Investment bond the Smooth Growth Rate = Bank of England Base Rate +4% per year.

Smooth Managed Fund 2

- If you invest through Aviva's Pension Portfolio the Smooth Growth Rate = Bank of England Base Rate +3.75% per year.
- If you invest through Aviva's Select Investment bond the Smooth Growth Rate = Bank of England Base Rate +3% per year.

Fund Price Adjustments

Every day, Aviva monitor two things:

1. The unit price, which they refer to as the "smoothed price", which normally increases each day in line with the Smooth Growth Rate, and

2. The "unsmoothed price", which is the value of the underlying fund divided by the total number of units

A fund price adjustment occurs when the difference between these two prices is more than 6.5%. In this scenario Aviva will automatically adjust the smoothed price so that the difference is only 1.5%.

How is the Smooth Managed Fund Range managed?

Aviva Investors manage the underlying assets and their approach to multi-asset investing can be broken down into three key features:

1) **Strong construction:** they use a diverse range of asset classes from a global universe, to enhance diversification, free from UK bias.

    - They divide assets into three simple categories. These are: Growth, Defensive and Uncorrelated.

        - **Growth assets** have the potential to drive each portfolio's capital growth and are more volatile. Typically, growth assets will include equities as well as riskier forms of fixed income.
        - **Defensive assets** aim to protect the value of your investment and manage risk. These include assets such as cash and government bonds.
        - **Uncorrelated assets** look to offer more diversification than traditional assets such as equities and fixed income. Typical assets may include absolute return strategies and property.

    - Aviva Investors believe implementing ideas in a cost-effective manner is key. This is why they will use a combination of passive strategies (lower cost strategies where managers are trying to the follow the market) and active strategies (higher cost strategies where managers are aiming to outperform the market).

2) **Responsibility built-in:** Environmental, Social and Governance (ESG) considerations are integrated throughout the investment process.

    - Aviva Investors have long held the view that considering environmental, social and governance (ESG) factors will not only make the world a better place, but it can also enhance returns, by being a risk mitigator and opportunity spotter.
    - They have a team of over 22 (as at 31 August 2020) dedicated ESG professionals, who specialise in issues such as climate change, working conditions and board gender diversity.

The ESG team provide analysis that is embedded into the Multi-asset funds range's investment process.

- Aviva Investors proactively engage with companies and use their share voting rights to drive companies in a positive direction. Some companies are excluded from the portfolio due to ESG reasons. For example, they will not invest in companies involved in the manufacture of controversial weapons.
- In addition to day-to-day fund management Aviva Investors also seek to influence policy makers and regulators to create more sustainable financial markets.
- ESG considerations are a non-binding but critical part of the investment process viewed alongside other risk factors. Aviva Investors' portfolio managers are empowered to make the right decisions for the best investment outcome.

3) Dynamic Management: These funds are pro-actively managed as market conditions evolve

- To add value and reduce risk, Aviva Investors look to proactively manage the funds. This can mean allocating more to where compelling opportunities arise or reducing exposure to risk. Aviva Investors understand that market conditions continually evolve, and rebalancing in a considered and adaptable way is sensible.
- At the hub of their investment view is their Asset Allocation Committee. This forum brings together the multi-asset fund managers, key representatives of the investment strategy team and fund managers from across the wider Aviva Investors investment teams. This helps them to harness the best ideas from across the business.
- Aviva Investors use best-in-class risk management tools to access the impact of potential economic events and stress-test the portfolios for a wide range of historical and hypothetical scenarios. The risk framework ensures that the portfolios are robust and without undue risk.

Why invest with Aviva and Aviva Investors?

Aviva is one of the largest insurance services providers in the UK, with around 33 million customers worldwide.

Provider	Product	AKG Rating
Aviva Life and Pensions	Select Investment Bond	A
Aviva Pension Trustees UK Limited	Pension Portfolio	B+

AKG ratings are the most usual way of assessing financial strength. These ratings are reviewed on an annual basis.

Who are Aviva Investors?

Aviva Investors is a global asset manager whose roots can be traced back to 1971. One of their key strengths is that they have broad and deep expertise across all major asset classes. This, combined with their insurance heritage, uniquely positions them to help you achieve your financial goals.

Breadth of capability

Aviva Investors has a global investment team who manage over £355bn across all major asset classes in 14 different countries. This gives them 24-hour on-desk coverage and a broad and deep understanding of all the major asset classes from a global universe.

Connected thinking

Understanding connections between people and ideas is crucial in the modern world. To maximise their capabilities all their investment teams collaborate and work together. This helps them to share the best ideas from across a global business, and to marry up the global macro themes with the micro security research.

Responsibility built-in

They have long held the view that incorporating environmental, social and governance (ESG) factors will enhance returns, by mitigating risk and helping identify better quality opportunities, as well as making the world a better place. This is why they embed ESG into the investment process and actively engage with the companies that they own on your behalf.

Important information

- The fund is not guaranteed to grow in line with the Smooth Growth Rate and may return more or less than this over any time period.
- The value may go down as well as up and you may get back less than has been invested.
- Fund Price Adjustments can be applied at any time to bring it more in line with the value of the assets. You should understand that a negative or positive adjustment of 5% or more could be applied to your investment soon after investing, or before you take your money out of either fund.
- If you invest through Aviva's Pension Portfolio, the Smooth Growth Rate for Smooth Managed Fund will never be less than 5% or more than 10%.
- If you invest through Aviva's Select Investment bond, the Smooth Growth Rate for Smooth Managed Fund will never be less than 4% or more than 9%.
- If you invest through Aviva's Pension Portfolio, the Smooth Growth Rate for Smooth Managed Fund 2 will never be less than 3.75% or more than 8.75%.
- If you invest through Aviva's Select Investment bond, the Smooth Growth Rate for Smooth Managed Fund 2 will never be less than 3% or more than 8%.
- The return you get from the Smooth Managed Fund Range may be more or less than these limits as Fund Price Adjustments could also affect your return.
- There is a cost to smoothing which is built into the total cost of the fund i.e. 0.65% for the Pension fund and 0.46% for the Bond fund

- A smoothed price reset is different to a Fund Price Adjustment and would only happen in the most extreme circumstances. This is likely to be when there is a large volume of money entering or leaving the fund. When this happens, to protect customers invested in the fund, the Smoothed price will be immediately reset, so that it is equal to the unsmoothed price. After this has happened, the Smoothed price will continue to move in line with the Smooth Growth Rate.
- Switches in and out of any funds in the Smooth Managed Fund Range are limited to one in each calendar quarter (a calendar quarter means 1 January – 31 March, 1 April – 30 June, 1 July – 30 September, 1 October – 31 December inclusive).

Customer suitability

With the Smooth Managed Fund Range, you need to be prepared to leave your money invested over the medium- to long-term (normally five years plus).

A typical investor will:

- be prepared to take a moderate amount of investment risk for Smooth Managed Fund and a low to moderate amount of investment risk for Smooth Managed Fund 2 in order to increase the chance of achieving a positive return.

To give you some context, higher risk funds usually invest more heavily in equities and property to aim for a better return, but the value tends to go up and down more than a medium risk fund.

Lower risk funds usually invest more heavily in bonds and cash/money markets. While this can help to reduce ups and downs in fund values, the long-term returns can be lower.

- know that the value of an investment can go down as well as up and that they may get back less than they invested
- prefer to spread risk by investing in a wide range of assets and be comfortable with their money being invested more heavily in shares and/or property than fixed-interest assets.

Customers who are closer to retirement or starting to take an income from their investment in retirement, may prefer to see less volatility in their investments and the Smooth Managed Fund Range may be a suitable option.

Governance

In terms of governance there is:

- The Manager Research team monitoring all the underlying fund managers
- Oversight and challenge from the independent risk team, through regular formal meetings as well as daily engagement, to ensure that the portfolio's risk profile is consistent with the fund's stated objectives and process, as well as the House View

In addition, Aviva Life and Pensions has oversight of the performance of internal funds managed by Aviva Investors, including the Smooth Managed Fund Range, through the Aviva Customer

Investments Forum, which is chaired by Aviva's Chief Investment Officer. This group meets on a quarterly basis to carry out the following duties/disciplines:

Review investment strategy

- To review investment policy and strategy, taking into account customer expectations and financial, risk and reporting implications as well as market outlook.
- To monitor and review mandates within Investment Management Agreements (IMAs) investment benchmarks and propose changes to the Investment & Credit Committee (ICC) or Asset & Liability Committee (ALCO) as appropriate.

Review investment performance

- To review and evaluate investment performance. Each quarter a high-level overview of all Life and Pension funds is reported.
- To review changes to the investment process, aimed at ensuring the attainment of the performance objectives.
- Review voting and engagement activity over the quarter

Appendix

Absolute Return
Funds with an absolute return strategy aim to achieve a positive return however the market fares.

Diversification
In the simplest terms, diversification is a very straightforward idea – you don't want to put all your eggs in one basket. Spreading (or 'diversifying') your savings across different types of investment (such as different asset classes, regions and sectors) allows you to benefit from many more opportunities, while also limiting the impact if any one holding underperforms.

Volatility
Volatility is a way of identifying how risky an asset might be. Broadly, assets that show large movements in value (high volatility) are riskier than those that don't change much (low volatility). That's because their value can increase or decrease significantly – which means it's possible to lose more, but it's also possible to gain more than less volatile investments. Because high volatility is associated with the potential for higher returns, there is always a trade-off between risk and potential reward, which is why understanding your appetite and capacity for risk is so important.

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